CATEGORY ADVISOR (What is it at RJR?)

A Category Advisor is not a manufacturer Rep who focuses on their brands only. It is not even a Rep who focuses only on their own Category. A Category Advisor does everything in their power to maximize for thier customer total Profitability, total Category Sales, leverages their Category to drive more foot traffic to drive sales of other merchandise like gas, beer, milk, snacks, etc. A Category Advisor actually understands what the retailer is trying to accomplish for the whole store or chain and does whatever he/she can to help the retailer get there in a manner that also benefits RJR.

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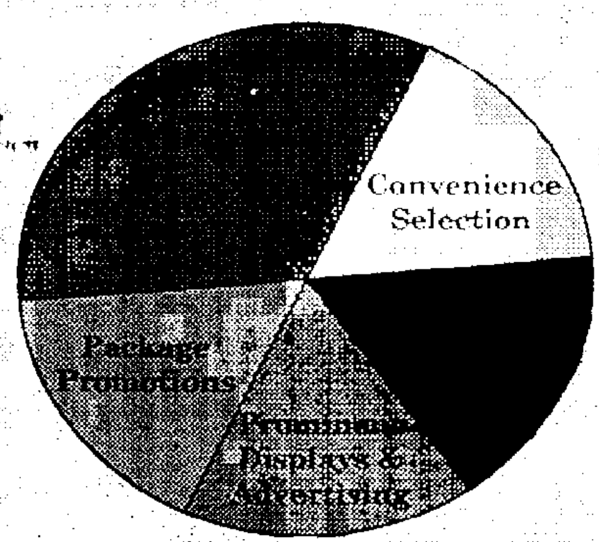
Some Industry Highlights

- Approx. 46 Mil. Smokers in the U.S. (24% of all adults)
- Over $34 Bil. in retail sales annually
- Conv. / Gas Outlets have over 45% of total volume
- Cigarette / Tobacco Stores are showing explosive growth
- Full Price business remains very strong (over 72% Industry Volume)
- Smokers spend $4.39 per visit versus non-smokers $3.02

What determines where smokers buy cigarettes :

- ☐ Number / Location of Outlets
- ☐ Competitive Pricing
- ☐ Prominent Display / Adv.
- ☐ Promotion Activity
- ☐ Convenience / Selection
- ☐ Smoker-Friendly Atmosphere



* Source: Convenience Store Shopping Basket Analysis Conducted by Promotion Decisions, Inc.

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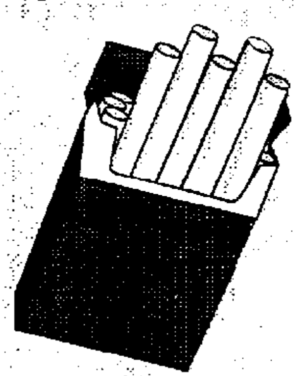
The Cigarette Merchandising / Promotion Mix Decision

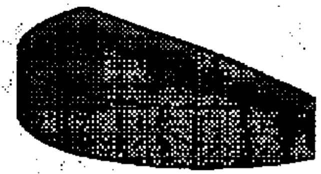
Multiple Cigarette Manufacturers

Category Management



VS

PM Only



PM Exclusive

Which Alternative Makes More Sense ?

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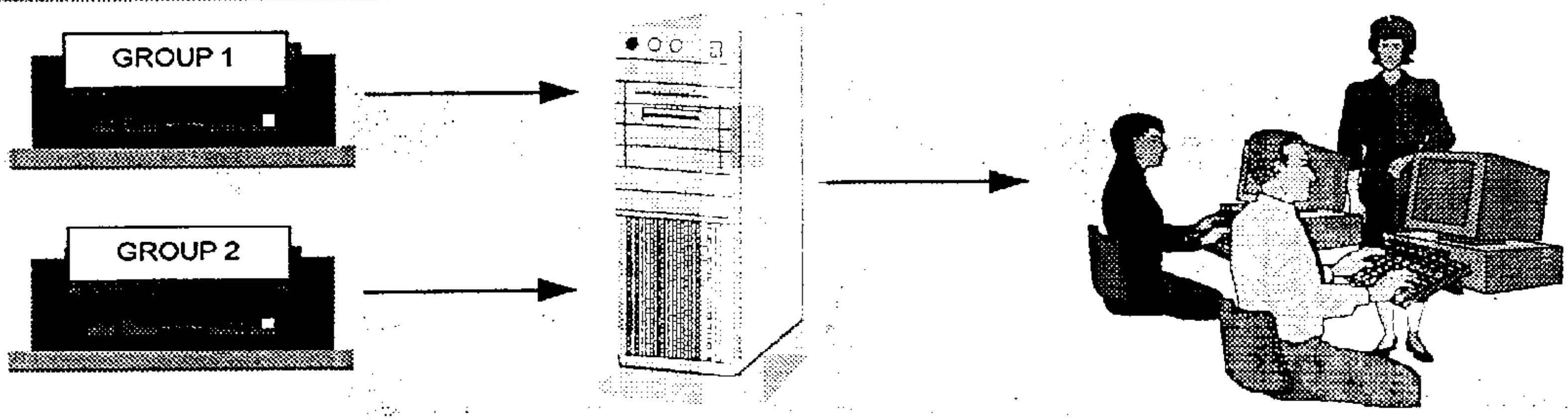
The Cigarette Merchandising / Promotion Mix Decision

➡ **<u>2 ROADS TO TRAVEL</u> :**

- **CO-EXISTENCE (Industry Approach)**
  - Satisfy More Customers
  - Positive $ Impact On Other Categories
  - Control Your Own Business
- **PM EXCLUSIVITY**
  - Minimizes Customer Satisfaction; Other Manufacturers Will <u>Not</u> Promote.
  - Case Studies Prove Reduction In Total Industry Cigarette Volume And Reduced Total Profitability.
  - Only The Manufacturer Who Suggests Exclusivity Wins!



2nd & 3rd Qtr. 1996 STUDY RESULTS

Group 1:

- 1,136 Conv/Gas stores tracked that went from Industry Approach to PM Exclusive.

Group 2:

- 1,013 Conv/Gas stores tracked that switched back to Industry Approach from PM Exclusive.

Source: Wholesaler provided data on "to retailer" shipments, through RJR AIM System

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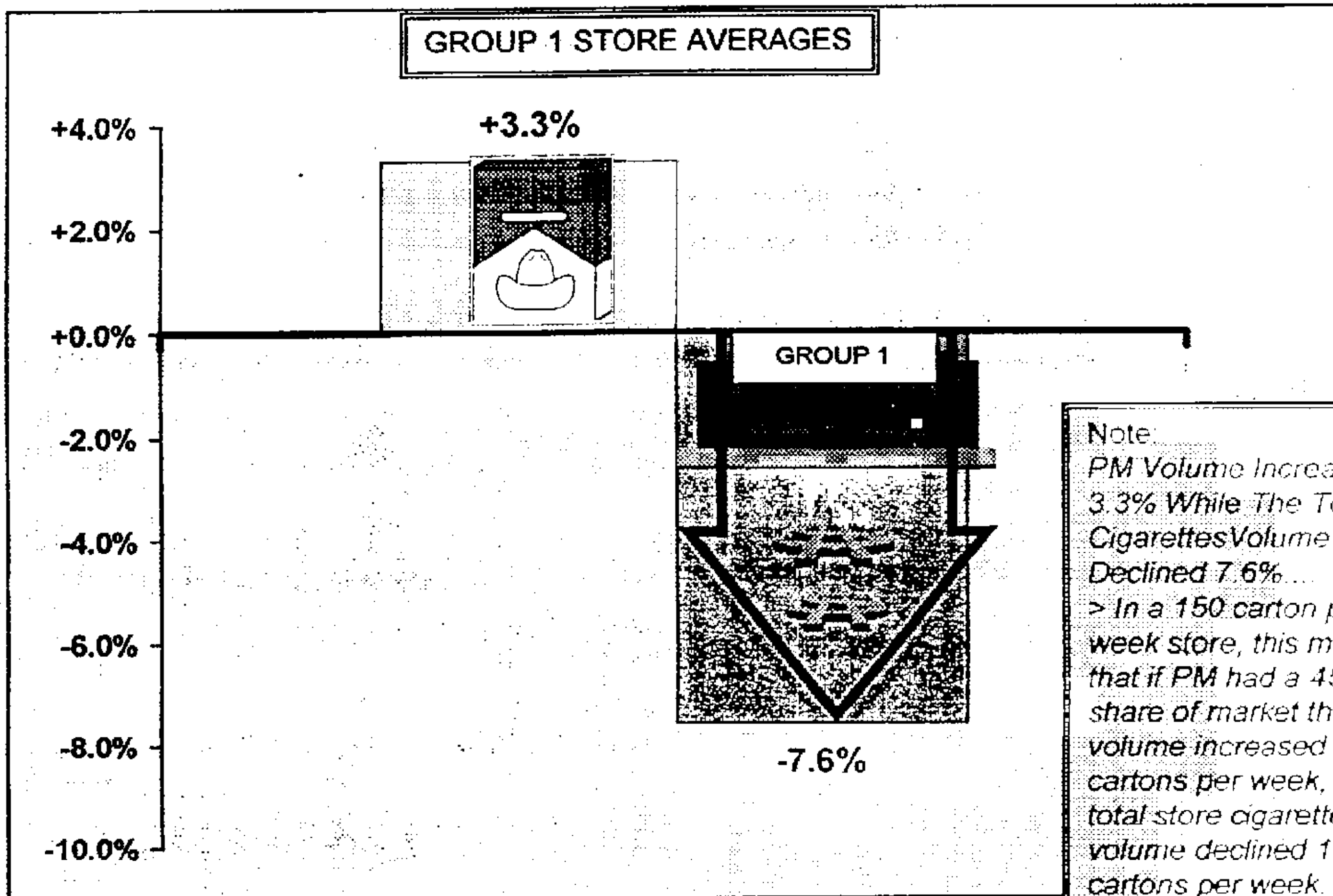
PM Exclusivity - *Who Benefits ?*



Note:
PM Volume Increased 3.3% While The Total CigarettesVolume Declined 7.6%...
> In a 150 carton per week store, this means that if PM had a 45% share of market their volume increased 2.2 cartons per week, while total store cigarette volume declined 11.5 cartons per week.

Source: AIM Tracking of 1,136 stores comparing volume after switching from Industry Approach to PM Exclusive.

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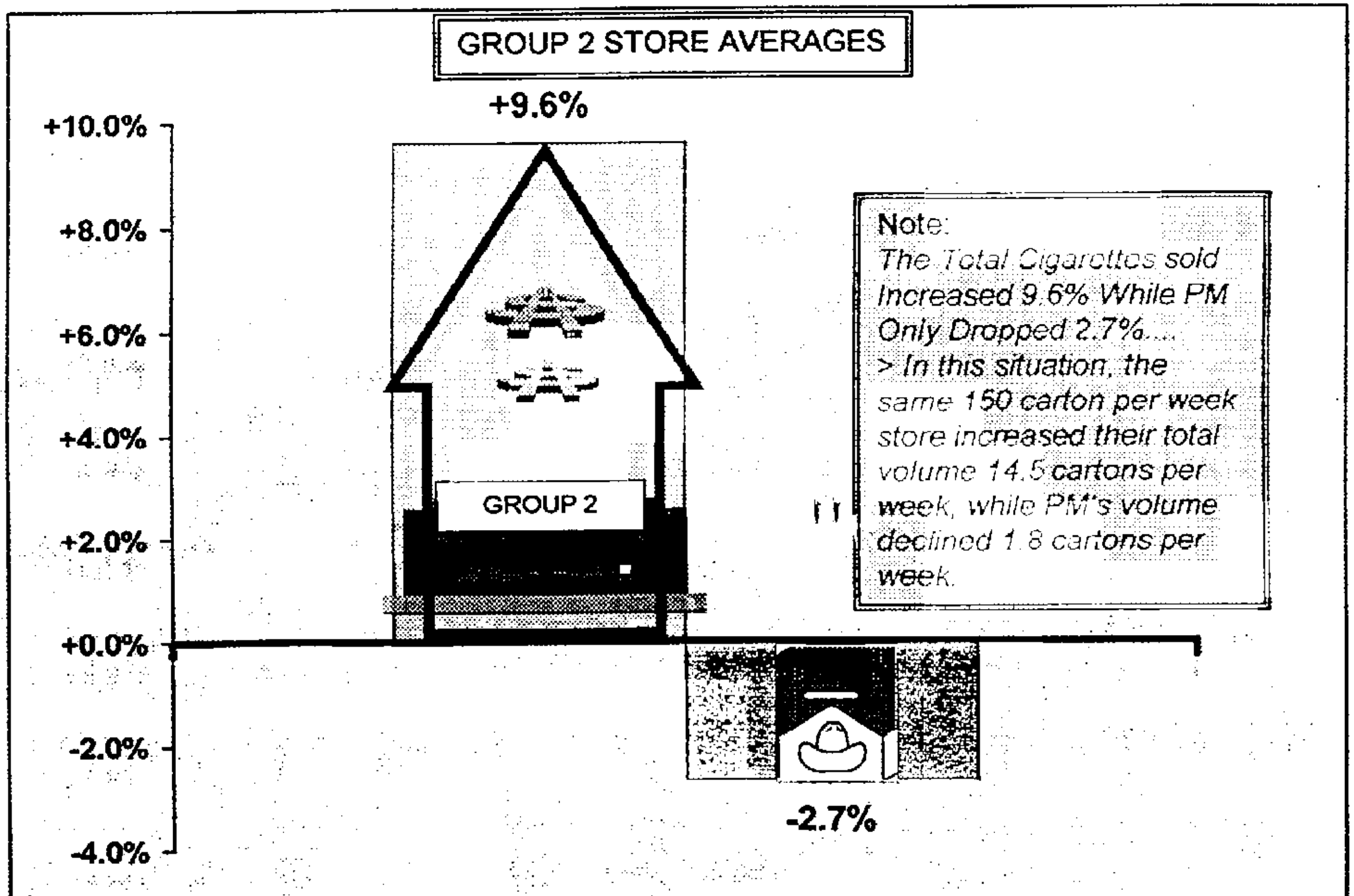
Industry Approach - *Now Who Benefits ?*



Source: AIM Tracking of 1,013 stores after switching back to Industry approach from PM Exclusive.

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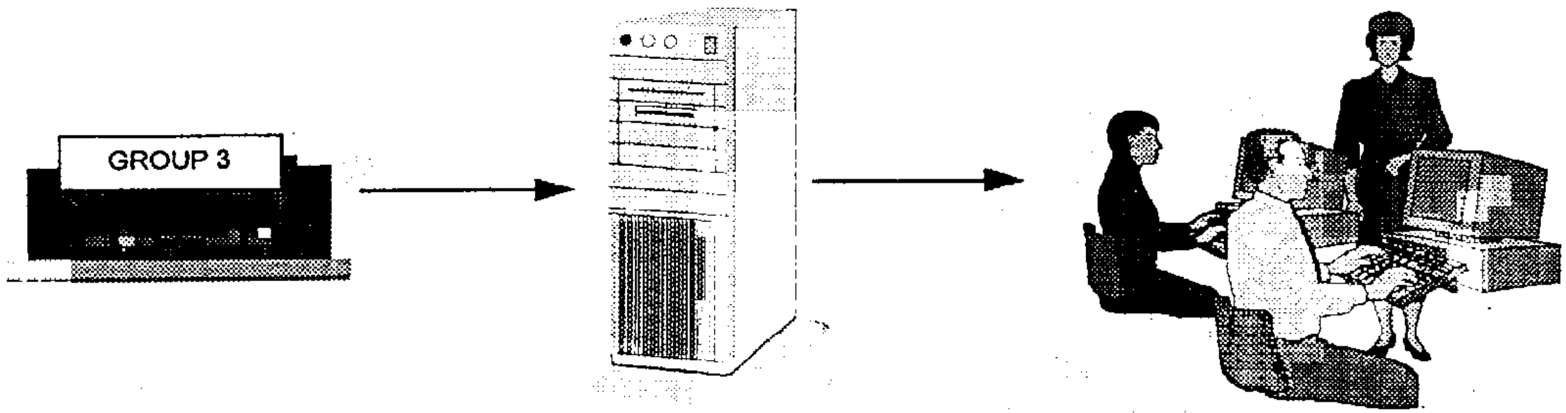

4TH QTR. 1996 STUDY RESULTS

Group 3:

- 3,504 Conv/Gas stores (20 Chains) that switched back to Industry Approach from PM Exclusivity.

Source: Wholesaler provided data on "to retailer" shipments, through RJR AIM System

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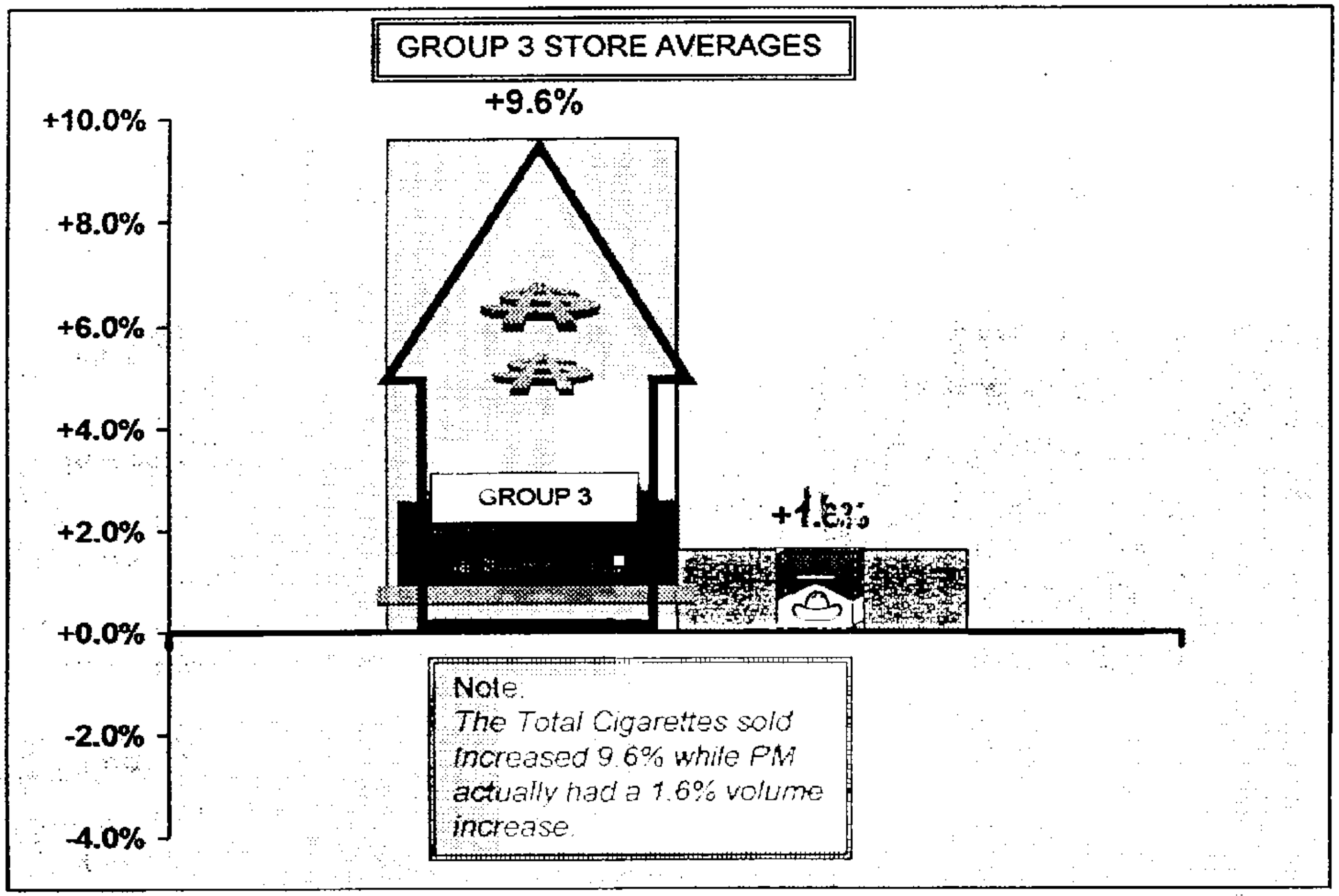
Industry Approach - *Now Who Benefits ?*



Source: AIM Tracking of 3,504 stores after switching back to Industry approach from PM Exclusive.

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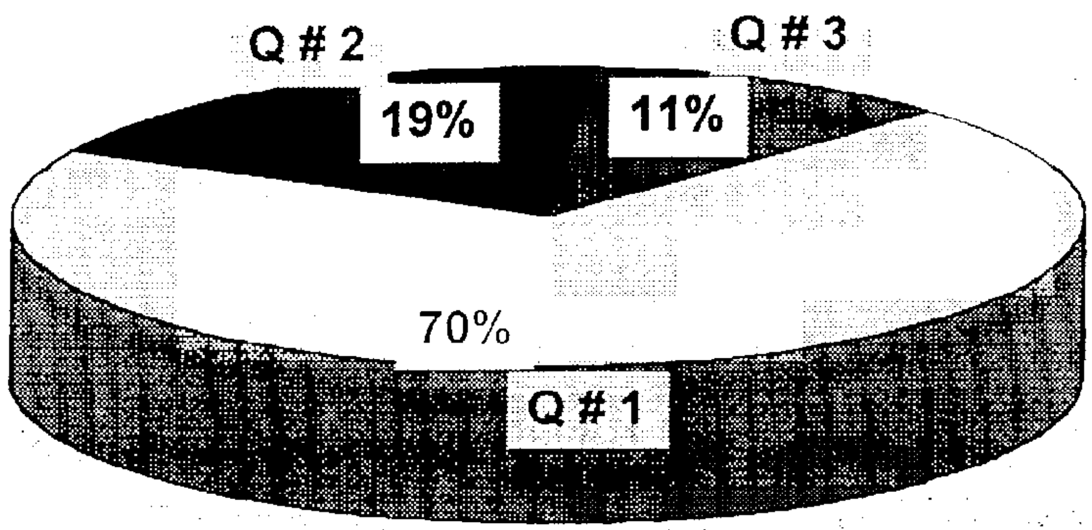
RETAILER FEEDBACK



Reasons Why Accounts Switched Back To Industry Approach

1. Overall cigarette volume Declined due to lack of competitive brand promotions, Camel, Winston, Doral, GPC, Kool, etc.
2. Other retail stores were able to have all cigarette companies under contract and get their promotions.
3. Dis-satisfied for various reasons, ie: PM follow -through, Retail Distribution Allowances.

Source: RJR survey conducted 2nd & 3rd qtrs. 1996.

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SHARE OF BUSINESS TO PROMOTE

Industry Approach

TOP BRANDS	SOM
CAMEL	5.67%
WINSTON	6.80%
SALEM	4.53%
MARLBORO	40.67%
KOOL	4.30%
NEWPORT	7.53%
DORAL	6.94%
BASIC	6.42%
GPC	6.47%
OTHER	
TOTAL SOM	**89%**

PM Excl. Approach

PM BRANDS	SOM
MARLBORO	40.67%
BASIC	6.42%
TOTAL	**47%**

Promotions Drive The Cigarette Category !

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HOW VALUABLE ARE YOUR CUSTOMERS?

	PER STORE AVERAGES	# OF STORES 100
WEEKLY CARTON VOLUME	150	15,000
WEEKLY PACK VOLUME	1,500	150,000
% DECLINE IN PACK VOLUME	7.6	7.6
WEEKLY PACK SALES DECLINE	114	11,400
PROJECTED WEEKLY PACK VOLUME	1,386	138,600
TWO PACKS = ONE CUSTOMER	57	5,700
SMOKING CUSTOMERS $ SPENT/VISIT *	$4.39	$4.39
WEEKLY SALES $ LOSS	$250.23	$25,023.00
ANNUAL SALES $ LOSS	$13,011.96	$1,301,196

* Source: Convenience Store Shopping Basket Analysis Conducted by Promotion Decisions, Inc.

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Marlboro Promotions

ISSUE : The Average PM Exclusive account can promote Marlboro at $2 off for 27 weeks.

- **Example Current Flex at Level II (Based on Historical Practices)**
  - Flex (Avg Store, PM Volume @ 49 cpw)
    - $24 x 12 mo. (Per Store) = $288 / 49 ctns. = **3 weeks**
  - Quarter Ending Promotions
    - $2 x 49 ctns. (Per Store) = **$98 x 16 Weeks = $1,568**

Stores Under Industry Approach Can Promote Marlboro at $2.00 off for 19 weeks

and

Utilize all the promotional dollars, promotions and programs from RJR and Other Manufacturers

Note: The above math works at any PM Volume Grid Level.

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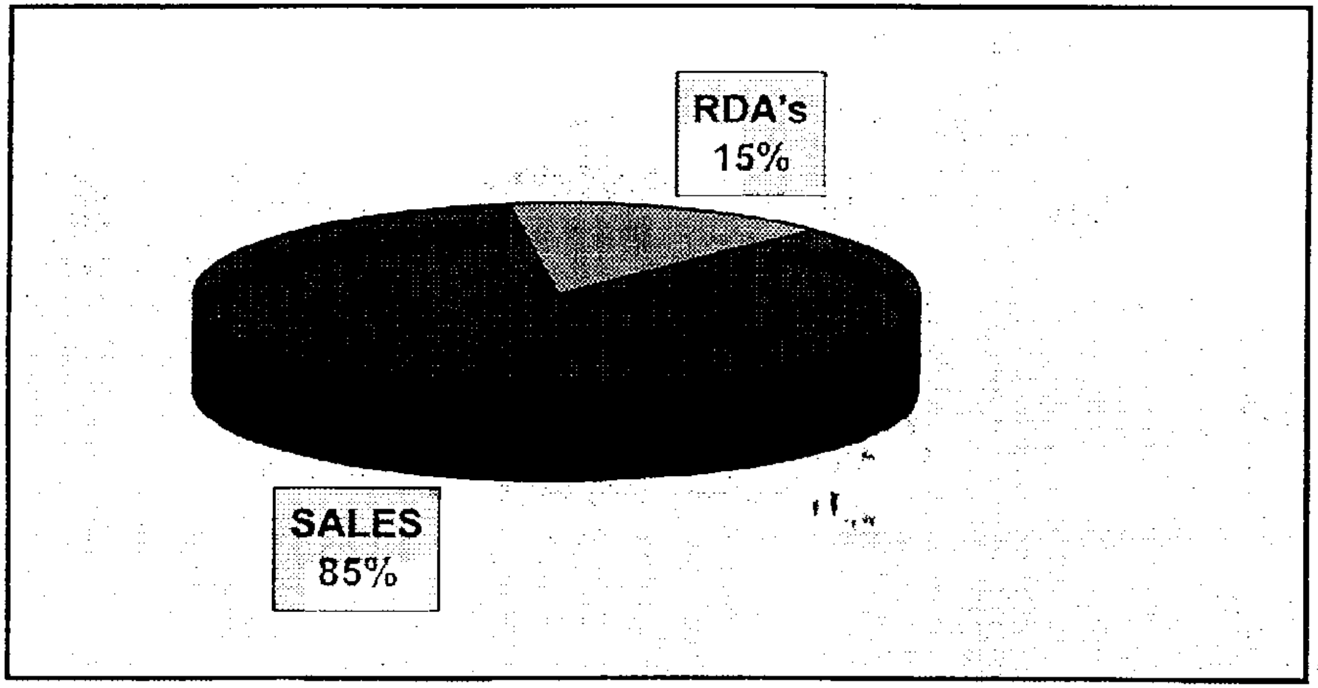
WHERE DO CIGARETTE PROFITS COME FROM?



Retailer Focus Should Be On Customer Satisfaction, Category Sales & Profits, and On Maximizing Traffic To Sell More Merchandise and Gasoline.

National Convenience/Gas Averages, Based on NACS (S.O.I.) - 1996

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The Cigarette Merchandising / Promotion Mix DECISION

Category Management is a Proven Technique, and it's a Simple Concept .....

' Give the customers what they want ' !

- **A full array of product promotions**
- **Brand variety, visibility & accessibility**
- **Maximize customer satisfaction & traffic**

Smokers are some of your best customers .

You can't optimize total store sales & profits if you fail to meet your consumers' needs !

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SUMMARY

How Much Better Is Industry Approach Than PM Exclusivity

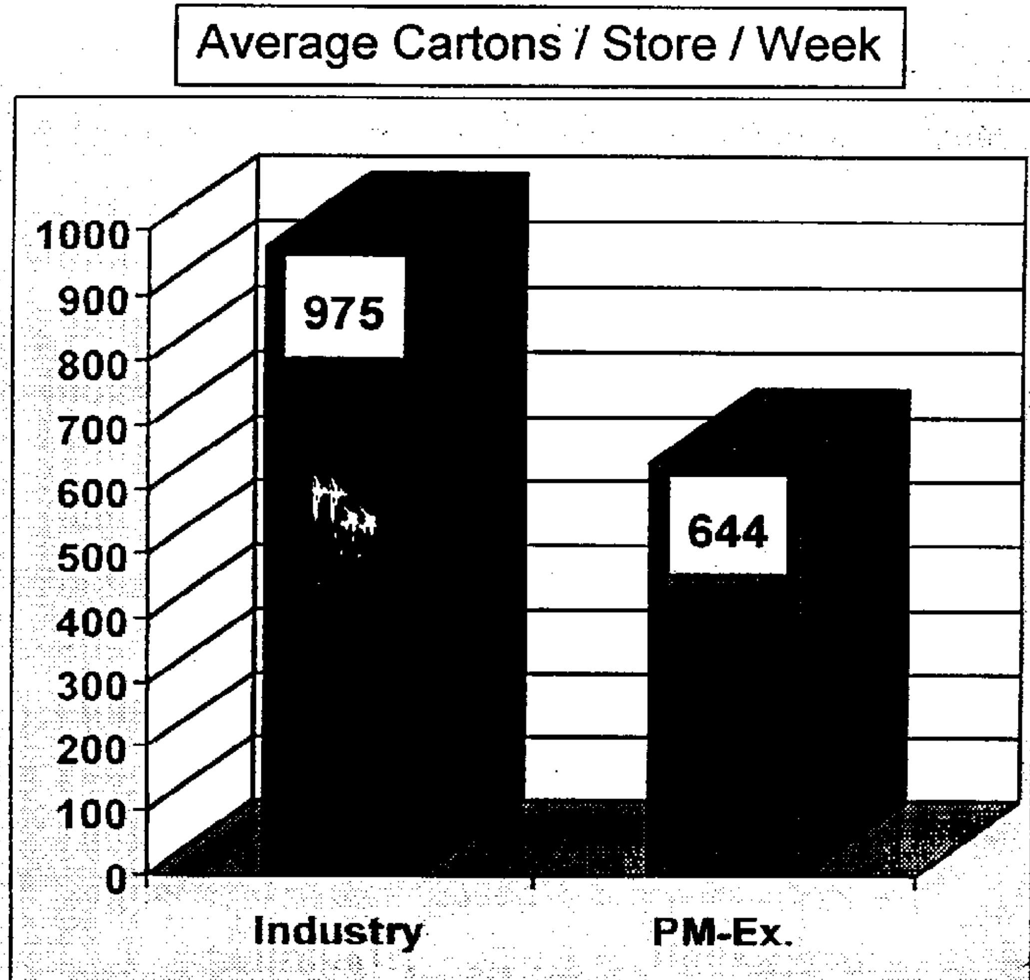
- ➡ Cigarette Volume
- ■ 2 & 3 Qtr. 1996 Study: +9.6% (1,013 Stores)
- ■ 4th Qtr. 1996 Study: +9.6% (3,504 Stores)
- ■ Cigarette / Tobacco Stores +34%
- ➡ Other
- ■ RDA's Only Represent 15% Of Cigarette Profits
- ■ Continue To Promote 19 Weeks of Marlboro Per Yr.
- ■ Ability To Promote 9 Brands Versus 2.

Focus on Cigarette/Tob. Stores - Industry VS PM-Exclusivity

CIGARETTE / TOBACCO STORES

- **If Cigarette / Tobacco Stores Are The Future Growth Outlets . . . .**
- **How Do They Compare In Today's Environment ?**

INDUSTRY APPROACH
Versus
PM - EXCLUSIVITY



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